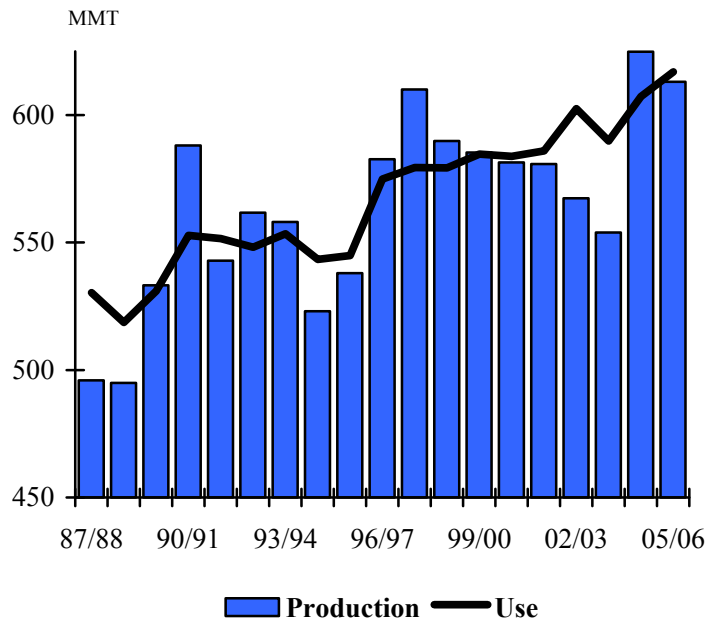


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## WHEAT: WORLD MARKETS AND TRADE

World wheat supply in 2005/06 is forecast to be up again due to higher carryin stocks and another expected large global crop - the second largest in history. World consumption is forecast to climb to a record with both higher food use and animal feeding. Steady population growth is expected to expand food use, especially in South Asia and North Africa. Also, there could be some additional growth in industrial use in Europe with the building of more ethanol plants. Wheat feeding is expected to be up throughout Europe and the Former Soviet Union due to smaller corn and barley crops. World production and use are expected to nearly balance next year, resulting in only a slight drawdown in global ending stocks. This decline will be driven primarily by the continued shrinking of China's stocks, while exporter stocks are expected to climb to the highest level in 12 years. The combination of larger world supplies and strong competition will likely pressure export prices.

### Large Production, Record Use Expected to Balance



### HIGHLIGHTS FOR 2005/06

#### Selected Exporters

Export competition is expected to intensify with abundant supplies expected in nearly all significant exporters. The **EU-25** will begin next year with large intervention and free stocks. Prospects for another huge crop are anticipated to pressure domestic/internal prices and help make EU wheat more competitive. Stronger import demand in Mediterranean markets will likely provide opportunities for expanded EU shipments. The level of total exports, though, will ultimately depend on Commission policies on export restitutions and intervention sales.

**Canada's** exports are also forecast higher, as a return to normal quality will make spring wheat more attractive next year. Durum exports are also likely to be up, as demand from North Africa is expected to be larger, and European demand expands due to a decline in durum area.

Even with larger forecast supplies, **Australian** exports are projected to fall due to reduced demand in key markets, especially China and Pakistan. Poor old crop exports

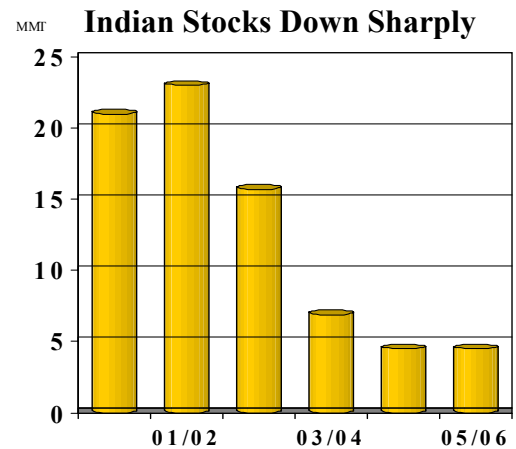
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Grain: World Markets and Trade, May 2005

due to the smaller crop in 04/05 will also contribute to the decline. **Argentine** exports are expected to drop even though production is forecast to remain fairly steady. With the past harvest already largely committed, exports during the first half of 05/06 will be down sharply.

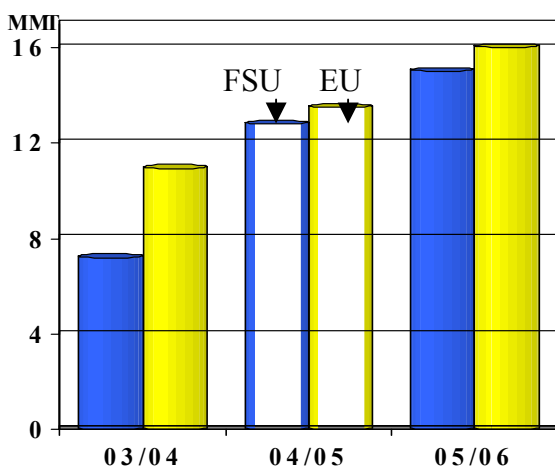
Exports from the Former Soviet Union are expected to be up again with replenished stocks and good crops. Sales from **Russia** and **Ukraine** are expected to grow again; and with shipments to the EU capped by quotas, more will go to Mediterranean or even Asian markets. Exports from **Kazakhstan** are also expected up with a crop recovery anticipated.

Despite the second largest crop in history, **Indian** exports are estimated to be down because of tight stocks, expanding food consumption, and the assumption that the government will not subsidize exports. Even so, some unsubsidized wheat will likely flow to nearby markets such as Bangladesh. **Syrian** exports are expected to be steady next year as the government tries to maintain stocks at about a year's consumption level.

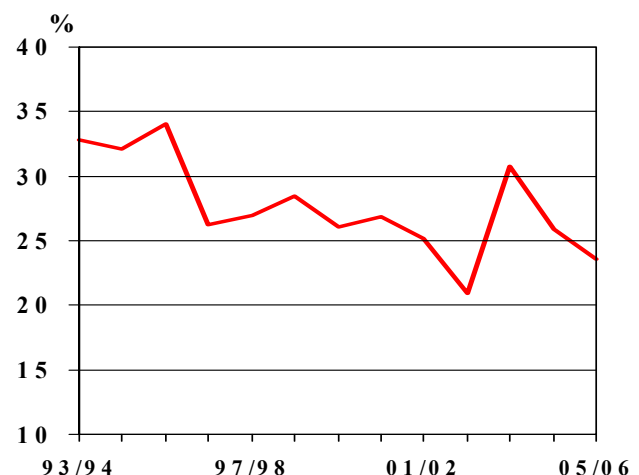


While production is expected to be up slightly, **United States** wheat exports are expected to fall 2.5 million tons. Stronger competition from Europe and the Black Sea region in Mediterranean markets, enhanced Canadian competition for spring wheat markets, and smaller purchases by China are forecast to combine to pressure exports. Ending stocks are subsequently expected to expand to a 4-year high.

**EU, Former Soviet Union Exports Surge**



**U.S. Global Market Share Falls Again**



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## Selected Importers

Total world import demand is expected to be down slightly from last year with a shift from Asian to Mediterranean markets. Smaller expected harvests in North Africa, especially **Morocco**, after years of bumper crops is expected to lead to higher soft wheat and durum imports. **Egyptian** demand is expected to be unchanged, maintaining it as the world's largest and highly competitive market.

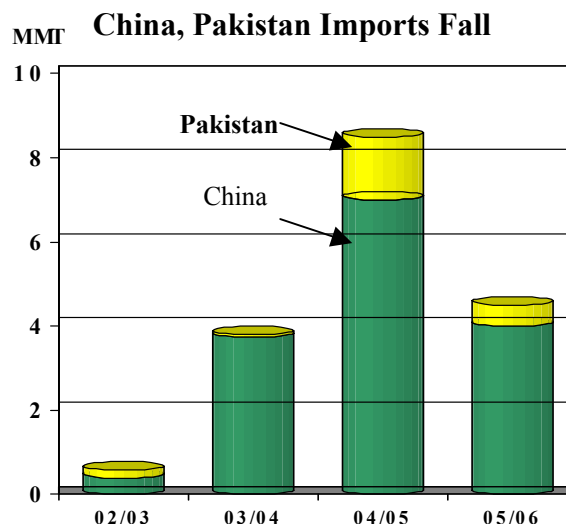
Middle East demand is also expected to increase with **Saudi Arabia** possibly importing substantial quantities for the first time in decades as production drops due to reduced government price support. Imports by **Iraq** are projected to rise in order to build larger buffer stocks. **Israel** imports are likely to increase slightly due to more feed-quality wheat from Russia and Ukraine. **Iran**, the world's largest wheat importer in 1999/00, is expected to once again require very little imported wheat as production surpasses use.

European imports are expected to be unchanged from last year. For the **EU-25**, feed-quality wheat imports are capped by quotas, which are expected to be filled by ample Russian and Ukrainian supplies. High-quality imports are also expected to be the same as last year, although there will likely be a shift towards more durum and possibly less spring wheat.

Larger carryin stocks will partially offset lower production in **Brazil**, with imports only expected up slightly. With a rebound in production, **Mexican** imports should fall from this year's record level.

In Asia, two major markets are expected to reduce imports due to larger crops. With acreage expanding for the first time in 9 years due to government programs and higher prices at planting, **Chinese** imports are forecast to fall from 7 to 4 million tons. In contrast to last year at this time, China has done little forward purchasing. With a near record crop, **Pakistan** is also expected to cut imports as the crop looks to be sufficient to build stocks and supply increased domestic use.

In Sub-Saharan Africa, **Nigerian** imports are projected to continue to grow with consumption. With the second smallest crop in over a decade expected in **South Africa**, imports are likely to remain at a high level, especially as substantial quantities will continue to be needed for re-export to bordering nations.



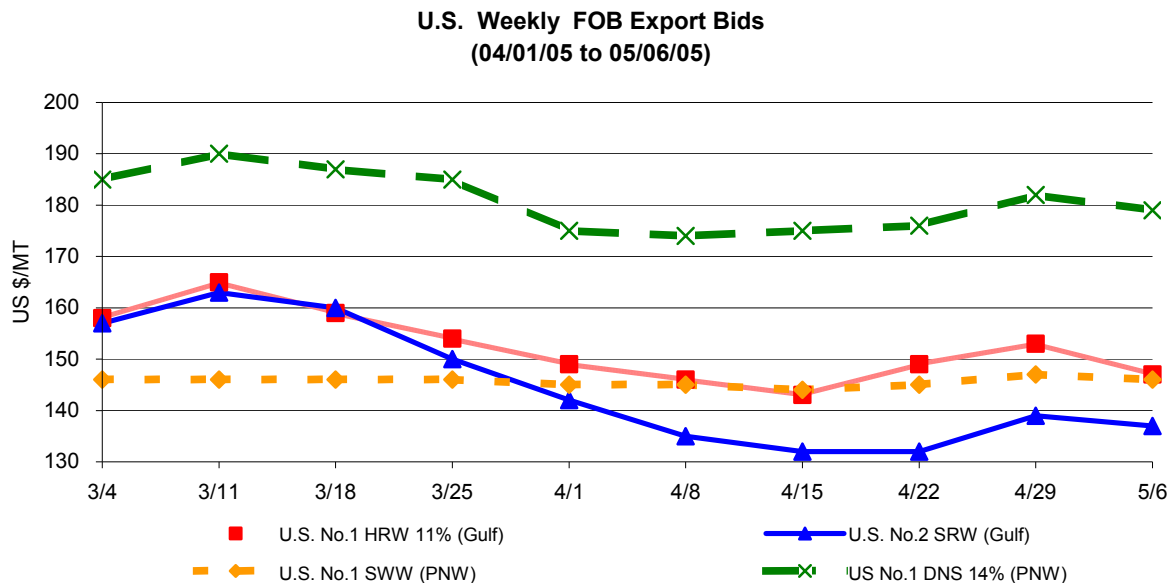
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**United States** imports are expected to be unchanged from last year with continued durum imports from western Canada as well as soft wheat from Ontario. Spring wheat shipments will likely be minimal due to countervailing duties.

### PRICES:

**Domestic:** U.S. wheat prices were under pressure for most of April on expectations for a good new crop and continuing large global supplies. Higher basis premiums due to tight supplies of high protein spring wheat helped DNS prices, while weaker demand depressed SRW prices.

For the week ending May 6, and compared to a month earlier, average HRW prices were \$2 a ton lower, while SRW were \$5 a ton lower. HRS prices rose \$4 a ton, while SWW gained \$1 a ton.



### TRADE CHANGES IN 2004/2005

#### **Selected Exporters**

- **Argentina** up 500,000 tons to a record 12.5 million as new crop exports have been very strong.
- **Australia** down 300,000 tons to 16.7 million as exports have waned in recent months.
- **Kazakhstan** down 500,000 tons to 2.7 million due to pace to date. Nearly half of grain exports this year have gone to Russia.

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- **Russia** up 300,000 tons to 6.3 million due to continued strong sales and exports, particularly to Egypt.
  - **Ukraine** up 300,000 tons to 3.8 million tons due to strong exports to date and continued shipments to the EU.

#### **Selected Importers**

- **China** down 500,000 tons to 7.0 million as imports have slowed considerably during the second half of the year.
- **EU-25** up 500,000 tons to 6.0 million due to stronger than expected low and medium quality imports from Russia and Ukraine.